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ABSTRACT

Foreign trade has become an increasingly important factor affecting employment in the United States, and competent workers must be educated to promote the U.S. position in the international economy. Concern is expressed about recent growth in the service industries, because it is believed that service industries have lower levels of productivity and slower productivity growth than goods producing industries. The U.S. Department of Labor's analysis of employment trends and worker supply projections stresses that future workers with college degrees will have a stronger competitive position in the service industries, while job opportunities for high school dropouts will be limited in quality and quantity. The worker supply is also changing, as workers from the baby boom and baby bust generations change the age structure of the work force, and an increase of Blacks, Hispanics, and women change the characteristics of the labor pool. As the U.S. job market shifts from blue collar to predominately white collar occupations that require special skills and extensive training, the educational system will have to be improved so that future workers will have the necessary basic skills and the knowledge to participate in a global economy. (DJC)

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COMPETITION AND COMPETENCE: EMPLOYMENT TRENDS FOR THE 1990'S

presented by

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at

The American Forum on
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Our international trade performance presents a serious challenge to American workers as well as to American business. Our competitors have become more numerous and more efficient. Product markets have become more international in scope, and greater opportunities for success now await those who can adapt to the new environment and who can compete most effectively.

Foreign trade has become an increasingly important factor affecting the U.S. employment situation. In 1970, merchandise exports and imports each represented only about 4 percent of our gross national product. Today, those ratios have increased substantially, with the import share more than doubling. Foreign trade accounts for a substantial proportion of our economic activity, and international competitiveness has become a major issue of public policy.

These issues are compounded by the fact that we are living in a period of unusual industrial and labor market change; indeed, a great deal of that change has already taken place. Much of our factory work force has been slimmed down, new technology is taking hold in many of our manufacturing processes, and labor costs have been reduced. Business, labor, and government have set improved competitiveness, both at home and abroad as a major goal. Adjustment to change has become an important labor market requirement, and the manner in which that adjustment takes place will determine our economic success in the future.

The need to develop new production and trade capabilities results from a number of current labor market trends: the restructuring of our industry and changes in the occupational mix of jobs on the labor demand side, and shifts in the composition and character of our labor force on the supply side. As these forces develop and improve labor productivity growth, we will have an economy that rewards competence more than ever before. But the change will not be easy. Many of our workers will have to face a need for retraining and adjustment to new work activity.

Let us examine these developments by starting with changes in industrial structure. The shift of employment away from goods-producing to service-producing activity is not new, either in the United States or other countries. The earliest records of our survey of business payrolls show that even at that time the majority of the nonfarm employees in this country were engaged in the provision of various services. In 1919, slightly more than half of nonagricultural payroll jobs were in service-producing establishments. And that proportion has increased rather steadily over the last seven decades. In 1987, more than 7 out of every 10 workers had jobs in the service-producing sector -- retail and wholesale trade; finance, insurance and real estate; transportation and public utilities, government; and the services industry itself.

Since shortly after World War II, the share of goods-producing employment has fallen from 42 to 24 percent of the

nonfarm workforce. Since 1979, we have actually seen a decline in the number of persons working in our factories and mines.

These are not developments that are unique to the United States. Six major European countries combined -- Great Britain, France, Germany, Italy, Sweden, and the Netherlands -- posted an 11 percentage point increase in the share of services employment between 1973 and 1986. Over the same period, the United States experienced a 6-1/2 percentage point rise. In fact, while manufacturing employment showed little net change at all between 1973 and 1986 in the United States, factory employment declined in these European countries -- by at least 8 percent in Sweden to as much as 28 percent in the United Kingdom. There is even some evidence of a trend away from the goods sector in other regions, such as Latin America.

We expect this trend toward jobs in services to continue in the United States. The most recent projections of the Bureau of Labor Statistics suggest that the service-producing sector will account for almost 78 percent of all jobs by the year 2000, and that the number of jobs in the goods-producing sector may decline still further. Three-quarters of all net new job growth is expected to be in just two industry divisions -- retail trade and services.

The growth in the service-producing sector has raised concern about our future because service industries are believed by some to have lower levels of productivity and

slower productivity growth than goods-producing industries. But the evidence does not support these conclusions. The productivity growth rates of service industries vary substantially. Some, such as telephone communications, gasoline service stations, and air transportation have had very high rates of productivity growth. In general, the range of growth rates in service industries is very broad. Many individual industries within the service sector have had productivity gains similar to those in many goods-producing industries, and some have had higher and some lower rates.

In addition to the concerns about productivity in the service sector, some believe that the growth of jobs in the sector raises problems for the future because the jobs created there, they believe, are low-skilled, low-wage, dead-end jobs. The sector does include some jobs in this category, but it also includes many high-skilled jobs, particularly in the fast growing services industry. Nearly 1 out of 3 jobs in services is a professional specialty, compared with 1 in 8 for the economy as a whole. Indeed, the service industry accounts for about three-quarters of all professional employment, even though the industry today represents only about 30 percent of all nonagricultural employment.

As this change in industry distribution of employment continues, so will the change in the distribution of occupational opportunities. Technical occupations are

expected to experience the fastest rate of growth, followed closely by service workers, sales workers, managers, and professional specialties. In fact, of the 20 fastest growing job categories, 12 will be professional, technical, and service occupations associated with health care. Slower than average growth is expected for precision production workers, administrative support clerks, and blue-collar operatives.

Thus, an important feature of our changing economy is the shift away from blue-collar to white-collar occupations. Many of these will require special skills and extensive training. Assistance in the adjustment process will require cooperative efforts of labor, business, and government.

These changes in industry and occupational mix are changes on the demand side of the American labor market. There have also been some dramatic developments from the supply side. The baby-boom generation has grown up to labor force age; they are now in the 25-44 year old group -- where workers are typically advancing through their career paths. As a result, we have fewer youngsters looking for entry-level positions. The job creation challenge has shifted to the needs of the huge cohort of new workers who are entering their prime working years and are seeking career development and advancement. This task is particularly difficult, since the sheer size of this generation makes competition for advancement keen. Managers may have to develop innovative ways to motivate workers whose advancement within an

organization may be limited because of the large supply of workers competing for the available upper-level opportunities. More attention will also have to be given to the enhancement of job satisfaction.

The cohorts that followed the baby-boom group were nowhere near so large. These younger groups are often referred to as the "baby bust" generation because of the slower birthrates in the late 60's and early 70's. The entry of these smaller cohorts into the labor force results in a diminishing share of young men and women in the work force. By the year 2000, the proportion of the labor force between the ages of 16 and 24 years is expected to drop by one-fifth -- to 16 percent.

While the baby boom and bust have changed the age structure of the workforce, another long term, and no less dramatic, trend -- the increasing labor force shares of blacks, Hispanics, and women -- are also gradually changing the characteristics of the labor pool. The number of black workers in the labor force is expected to grow by 29 percent by the year 2000, at almost twice the rate of whites. The projection for Hispanics is even more dramatic: a 74 percent increase is expected to lift the Hispanic share of the total labor force from 7 percent in 1986 to 10 percent in 2000.

The increase in the number of women entering the workforce will also continue, although at a somewhat slower pace than in the recent past. While less dramatic than the

huge inflow of women into the workforce in the 1970s, we expect that the number of women in the labor force will rise at a much faster rate than for men over the rest of the century.

As a result of these trends in the labor supply, the work force of the future will, on average, be older and will have a larger proportion of black and Hispanic workers. Thus, the changing demands on the labor force will coincide with a change in the very structure of that labor force--a new mix of workers will be learning a new mix of skills. How this turns out will depend in large part on the performance of our educational system in the next decade. If we are to regain our competitive edge in trading with other countries, our workers will need to be better prepared, better trained, and better able to deal with new technologies. In addition, school curricula will have to pay far more attention to the understanding of foreign cultures in the future that they have in the past.

New skills and new workers provide the most important of the challenges coming in the 1990s, and, if we deal with these challenges, we should be able to increase our rate of productivity growth. In many ways, today's American workforce is the best and most productive in history. Over 1 in 4 of our adult workers (25 to 64 years old) has a college degree. A decade ago, it was 1 in 5. In 1987, there was over $33,000 of gross domestic product for every worker; in 1960 the comparable figure -- measured in dollars

of comparable value -- was $24,000. And output per hour of all persons has improved in recent years.

If these numbers are so good, why do we express so much concern with our competitiveness and competence? How do we compare with the other nations of a dynamic and increasingly interdependent world? How do we go about preparing our workers to be competitive in such an international economy?

There have been at least three distinct stages of international productivity competition in manufacturing since 1960. First, from 1960 through 1973, there was a tremendous increase in productivity as the major European and Japanese economies, by then fully recovered from the devastation of the Second World War, posted annual rates of productivity growth averaging 6.6 percent and ranging as high as the 10.3 percent yearly pace in Japan. In that era, the 3.2 percent annual rate of increase in U.S. factory productivity looked rather puny.

Second, in 1973, all of these industrial economies began to record a dramatic slowdown in productivity growth. The relative position of the United States continued to slip, however, and the competitiveness issue was promoted from a problem to a crisis. Third, after the recessions of the 1980's ran their course, our stronger recovery was reflected in a significant improvement in productivity performance. During this third phase, U.S. productivity gains have been near the average of our overseas competitors. In fact, in 1985 only Japan posted a larger

gain in manufacturing efficiency, and in 1986, the United States was at the top of the heap.

The competitive position of the United States has been further boosted by restraint in wage gains and the depreciation of the dollar. Relatively slow wage growth has been reflected in lower unit labor costs for manufactured goods. The relatively cheap dollar has made our exports less expensive to foreign buyers and, conversely, raised the dollar price of our imports from them.

Over the course of the past 27 years, then, the comparative productivity of our factories has careened from problem to crisis to, possibly, a renewed position of leadership. It is plain that, for better or worse, the international economy is a dynamic forum of competition; no lead seems to last forever.

As the three general trends we have examined here continue, we will move toward an economy in which a smaller proportion of our workers will be directly engaged in the manufacture of goods. Nevertheless, the proportion of our total output of goods and services that is derived from that manufacturing sector is expected to stay at about current levels. These developments imply a significant increase in factory productivity. But a prerequisite is a more skilled, more adaptable workforce.

How can we continue to improve our competitive position? I have already mentioned that the new occupational structure of employment will make special

demands on those with high initial qualifications. Perhaps more important will be that our workers confront more intense competition. As a rule, new products will probably come more quickly to market, and more and more countries will compete to produce them. This has been occurring because goods, capital, and technical information have been flowing more freely and traded products have become more knowledge-based. To compete in this environment, our workforce will need to be knowledgeable, productive, and flexible. They will need to have a solid basic education, a knowledge of the culture and languages of the countries with whom we trade, and training in skills useful to the workplace. This is possible, I believe, because as John Adams said in a letter to his wife Abigail:

> "Human nature with all its infirmities and deprivation is still capable of great things. It is capable of attaining to degrees of wisdom and goodness which, we have reason to believe, appear respectable in the estimation of superior intelligence. Education makes a greater difference between man and man than nature has made between man and brute. The virtues and powers to which men may be trained by early education and constant discipline are truly sublime and astonishing" (October 29, 1775).

Our analysis of the workforce demand and supply projections stresses that education will, as always, be a key to job market success, but probably more so in the

future than in the past. As growth rates in professional and managerial occupations continue to be strong, and the number of youth entering the labor market declines, those workers with college degrees should be in a stronger competitive position. At the other extreme, however, opportunities for those without a high school education will be quite limited in both quality and quantity. Far fewer poorly educated youth will have the opportunity to obtain factory jobs. Many lower-paying service and retail trade jobs will still be created, but opportunities for advancement will be quite limited, particularly for those without competence in language and math skills. This rising skill requirement will pose a particular challenge to our society -- that is, to find ways for those who have had relatively poor records of academic success to raise their educational levels and compete for the better jobs.

At the same time, we must take steps to improve our educational system. Too many of our youngsters are graduating with inadequate preparation. Many do not have the background they need to participate fully in the work place. Too many of our youngsters are unable to pass basic company entry-level tests. If we are to improve our competitive position in the world, Americans will not only have to be well-grounded in the basic skills; they will also need to be educated to participate in a global economy.

If our new jobs are performed competently, we will create a healthy U.S. economy. If they are done in a

slipshod manner, by persons with second rate education and training, some of the worst-case scenarios of lost competitiveness will be more likely to come true. We have found out the hard way that American leadership in the world economy is no longer a foregone conclusion. From this point on, our businesses and our workers, together, will have to earn our position in the international market place.